

City of Detroit

RISK MANAGEMENT COUNCIL



2005 Evaluation of the City of Detroit's Risk Management Function

December 2005




City of Detroit
Risk Management Council

2 Woodward Ave., Room 208, Detroit, MI 48226
313-224-3101

MEMORANDUM

Date: December 16, 2005

To: Mayor Kwame M. Kilpatrick
Honorable City Council

From: Sharon L. Gipson, Chairperson
Risk Management Council 

Subject: 2005 Evaluation of the City of Detroit's Risk Management Function

Attached is the Risk Management Council's 2005 Evaluation of the City of Detroit's Risk Management Function. This annual report is being issued pursuant to Section 9-702 of the City Charter which mandates the Risk Management Council to provide an annual evaluation of the effectiveness of the City's risk management functions to the Mayor and City Council, and to make recommendations to the Mayor concerning implementation of policies, programs and activities to minimize exposure or liability of the city to claims and damages.

The Risk Management Council is comprised of the Corporation Counsel, the Chief of Police, the Finance Director, the Human Resources Director, and the Auditor General or their designees.

It is the goal of the Risk Management Council, through its evaluations to cross-pollinate ideas between departments that can reduce the costs of claims to the City of Detroit.

Report of the Risk Management Council

2005 Evaluation of the City of Detroit's Risk Management Function

OVERVIEW

The purpose of this report is to provide an evaluation of the effectiveness of the City of Detroit's risk management function and to make recommendations to the Mayor and City Council to minimize the City's exposure and liability to claims and damages.

The establishment of the Risk Management Council represents the public's desire for City government to manage risk. The City of Detroit Home Rule Charter mandates the Risk Management Council to evaluate the risk management functions at both the City-wide and department level. Specifically the Charter requires the Risk Management Council to:

1. Make recommendations to the Mayor concerning implementation of policies, programs and activities to minimize exposure or liability of the City to claims and damages.
2. Provide an annual evaluation of the effectiveness of risk management functions to the Mayor and City Council.
3. Investigate the administration and effectiveness of risk management functions in each City agency and report findings and recommendations to the Mayor and City Council.

EVALUATION

Current Claims and Risk Related Liabilities

The City expends a significant amount of resources on claims and judgments paid. In fiscal years 2004-2005, 2003-2004 and 2002-2003 the City paid claims and judgments totaling \$69.7 million, \$75.5 million and \$60.3 million, respectively. Most of the exposure, liability, and claims paid occurred in the Police, Transportation, Public Works, Fire, and Water and Sewerage departments. History has shown that most City departments and agencies will be exposed to claims that result in some financial liability. Therefore, the City has a great need for a City-wide risk management system.

Structure and Strategy

The City's risk management structure includes the Law Department and the Risk Management Division of the Finance Department. The Law Department's risk management efforts tend to focus more on minimizing the claims payouts as opposed to preventing the likelihood of a claim. The Risk Management Division's mission is to protect the assets and earning power of the City from loss or destruction. Yet, its responsibilities are limited to workers' compensation, central safety, long-term disability, and the administration of the self-insurance Risk Management Fund. The management of many of the risk related events, that expose the City to liability, remain at the department or agency level.

The risk manager, who reports to the finance director, lacks the authority to implement a comprehensive City-wide risk management policy and specific risk management procedures within various departments or the authority to require department directors to implement risk management processes and procedures, to minimize the City's exposure and liability. This is critical to the City's ability to effectively identify how much risk the City as a whole can tolerate and to develop plans to mitigate the risk.

The City uses a silo approach in its risk management strategy whereby many of the risk events are managed at the department or agency level. In this approach, the risk manager primarily manages insurance types of risks, and the various directors manage the remainder of the risks within the departments. These functional areas or departments do not systematically coordinate efforts or explore opportunities to collaborate in the management of the entire risks of the City even if risks are known to be intertwined between multiple departments, or there are similar processes or functions across departments and agencies. As a result, the City has not incorporated risk management into its overall plans and there is a lack of consistency in the way risks are identified, assessed, and managed throughout the City.

Appropriations

The legal judgments, workers' compensation claims, and other risk related claims incurred within the various departments are not reflected in the budgets or costs incurred by the respective departments. This accounting methodology precludes the City from assessing the direct financial impact of claims and judgments on the costs of a department's operations. It also removes accountability for the effectiveness of the departments' risk management efforts. Therefore, the departments and agencies experience no financial consequences for the liability associated with their objectives to provide City services. In addition, since the methodology separates the liabilities resulting from the departments' operations from its budget and operational expenditures, it fosters an "out-of-sight out-of-mind" culture within the departments with respect to risk management.

Policy

The City does not have a comprehensive City-wide risk management policy that communicates, throughout the organization, risk management standards and courses of action. More importantly, the City does not have a policy requiring departments and agencies to formalize processes to identify incidents that may cause claims and damages, identify the potential causes of the incidents, identify controls to reduce the likelihood of future incidents, communicate and implement the mitigating controls, and monitor the use of the controls.

The City does not have a policy manual that documents, for its employees, a risk management system which sets priorities in the midst of competing demands and limited resources, and which includes a set of policies that describes how the City systematically applies risk management policies, procedures, and practices to risk.

Many of the City's department policy and procedures manuals are nonexistent or outdated at best. Departmental policy and procedures manuals that reflect best practices of the industry are critical to effective risk management. These manuals should detail job responsibilities and identify the high-risk tasks completed by employees as they work to achieve City-wide and departmental objectives.

Policy manuals provide directions that cause different people to approach the same tasks in the same ways. Risk is increased when there is a lack of direction, resulting from nonexistent or obsolete policies and procedures. This lack of standardized direction cultivates an environment for people to approach the same tasks in different ways, resulting in different outcomes. Risk is minimized when employees understand the policies and procedures that are applicable to them, and when they are held accountable for performing the tasks correctly. A continuous cycle of training should be required to ensure employees know and understand the policies and procedures.

Training

There is no comprehensive City-wide risk management policy that requires each department to:

- Incorporate risk related strategies into its planning process.
- Identify the significant risks that impact the department's ability to meet its objectives or increase the City's exposure to liability.
- Identify high-risk tasks within each employee's job responsibilities that increase the City's exposure to liability.
- Track and trend actual events that resulted in claims against the City. Analyze the data and identify areas that require training to ensure that employees carry out responsibilities in a manner that minimizes future risk exposure to the City.
- Develop and implement a continuous training program.
- Continuously monitor the results of the new policies and procedures.

The effectiveness of the City's risk management process is increased as each City employee is trained to consider any activity that identifies risks and to determine what can be done to change, reduce, or eliminate the risks.

RECOMMENDATIONS

Without a continuous, proactive and systematic process to understand, manage and communicate risk from an organization-wide perspective, the City will continue to have significant risk related challenges without a means by which to address them.

Risk Management Leadership

The Mayor must become the champion of the risk management process, to provide the necessary leadership in embracing an integrated risk management model, while establishing accountability for risk management at all levels, and clearly defining and embedding risk management into the City's culture.

Cabinet Level Risk Management Officer

The Risk Manager currently reports to the Finance Director. As a result of this reporting structure, the Risk Manager lacks the authority to:

- Develop and implement a comprehensive City-wide risk management policy;
- Require the collection and submission of risk management information from the various departments;
- Require the implementation of standardized risk management procedures at the department level; and
- Cause a dramatic reduction in claims against the City.

We recommend:

- The establishment of a cabinet level Risk Manager, who heads a Risk Management Office that reports directly to the Mayor, and sets methodologies and reporting standards, and educates the organization at large.
- This office should have the authority to establish and integrate risk management systems throughout City government to cause a dramatic reduction in claims against the City.

Policy

We recommend that the Risk Manager:

- Develop and implement a comprehensive City-wide risk management policy that communicates the risk management process required to be implemented by each department and agency.
- Require the development, update and implementation of departmental policies and procedures, which include the departmental risk management processes of identifying, treating, monitoring, and communicating risks.
- Use risk information in the strategic planning and budgeting processes, and require each department to document key risks, develop risk management strategies and determine the resources, accountability and timing of the planned implementation.
- Implement the strategies necessary to cause a dramatic reduction in claims against the City.

Training

We recommend that the City:

- Develop and implement an ongoing and verifiable risk management training program that includes training on critical organizational-wide and department policies.
- Train the departments to analyze data related to risk occurrences, and provide continuous training on these areas.
- Require departments to provide training on high risk or critical tasks performed by employees in the course of their job duties. The training should be solid, realistic, ongoing and verifiable.

Supervision

We recommend that the Mayor hold supervisors accountable to enforce the risk management policy and assure systems implementation.

Risk Management Appropriation by Agency

We recommend that the City:

- Appropriate risk management expenditures by agency and account for the payment of claims and judgments within each department's budgetary structure.
- Include the cost of claims and judgments in the costs of each department's operations.

Integrated Risk Management Approach

The City currently manages its risks using a silo approach, whereby the management of risk is left to the discretion of the respective agencies. This approach yields a lack of consistency in risk identification, assessment, and management. In addition, because the department directors typically do not share information, critical City-wide risks are often not identified or effectively managed.

We recommend the implementation of a continuous, proactive and systematic process designed to understand, manage, and communicate risk from an organization-wide perspective. Risk management should be integrated into existing planning, operating and reporting processes, utilizing a series of meetings in which a cross section of directors, managers, and other key advisors work together to identify and assess the more significant risks that may impact the City's key business objectives. The Risk Management Officer and the senior management team should use the list of significant risks as a starting point to identify the City's most critical risks, which can then be used in the planning and budgeting process.

We recommend that the City provide additional funding to increase the staffing levels of the Risk Management Council to meet its charter mandate, in order to provide assurance that an effective risk management process is in place; that significant business risks have been identified, assessed and managed; and that controls intended to mitigate risks are working as intended.